



Joint Legislative Audit Committee
Office of the Auditor General



FINANCIAL AUDIT REPORT
DEPARTMENT OF GENERAL SERVICES
YEAR ENDED JUNE 30, 1979

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-082**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

082

FINANCIAL AUDIT REPORT
DEPARTMENT OF GENERAL SERVICES
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

November 21, 1980

082

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Department of General Services, year ended June 30, 1979.

The auditors are Richard I. LaRock, CPA; Cynthia M. Hoffart, CPA; Patricia J. Nishi, CPA; Delfin T. Pelagio, CPA; Jeffrey A. Winston, CPA; Art Rogers, CPA; Jeffrey Mansur; Enrique Farias; Thomas R. Dovi; James Rostron; Patricia Duncan; and Ramon Juarez.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Department of General Services. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The Department of General Services was established in 1963 to centralize certain support and contract functions previously provided by the Department of Finance and the Public Works Board. The primary objectives of the department are to provide these support and contract services with greater efficiency and to establish and approve management standards and guidelines for all state departments.

The Department of General Services, organized under the State and Consumer Services Agency, comprises 21 divisions, one board and one commission; each has individual responsibilities and independent policy-making authority. The divisions have been grouped into three functions: administration, statewide support services, and property management. The Director of the Department of General Services has administrative responsibility for these divisions.

The department and its programs are primarily funded through direct support appropriations, revolving fund appropriations, and reimbursements.

AUDITOR'S OPINION


To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the Department of General Services as of June 30, 1979 and the related statements of revenues, expenditures, and changes in fund equity and changes in financial position for the year then ended. Except as set forth in the following paragraph, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The department did not take a physical inventory of the work-in-process of the Internal Service Funds which were stated at \$3,792,941 as of June 30, 1978 and at \$3,925,749 on June 30, 1979. In addition, the department did not maintain sufficient detailed historical cost records to support the balance of the equipment account and its related accumulated depreciation. These accounts were stated at \$35,078,750 and \$20,693,565 at June 30, 1979; depreciation expense totaled \$3,538,434 for the year then ended. Because of the nature of the department's records, we were unable to satisfy ourselves as to the value of the work-in-process inventory or the balance of equipment, accumulated depreciation, and depreciation expense through other auditing procedures.

In our opinion, except for the effects of adjustments, if any, had we been able to observe the physical inventory of the work-in-process or audit the balance of equipment, accumulated depreciation, and depreciation expense of the Internal Service Funds, the financial statements present fairly the financial position of the Department of General Services at June 30, 1979, and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The accompanying supplemental information and the columns on the accompanying general purpose financial statements captioned "Totals - Memorandum Only" are not necessary for a fair presentation of the financial statements but are presented as additional analytical data. The supplemental information has been subjected to the tests and other auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole, except as set forth in the preceding paragraphs.



WESLEY E. VOSS
Assistant Auditor General

Date: August 25, 1980

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DEPARTMENT OF GENERAL SERVICES
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 1979

	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Type	Account Group	Totals
ASSETS	General	Special Revenue	Internal Service	Trust and Agency	General Fixed Assets	(Memorandum Only)
Cash	\$ 470,808	\$5,159,547	\$191,894,843	\$ 28,526	\$ --	\$197,553,724
Investments (Note 2)	--	--	--	145,462,426	--	145,462,426
Deposits in Surplus Money Investment Fund (Note 3)	--	932,000	--	129,000	--	1,061,000
Receivables	8,058,771	381,962	25,751,433	329,593	--	34,521,759
Allowance for deferred and uncollectible receivables (Note 4)	(8,012,827)	(275,933)	(26,137)	(254,446)	--	(8,569,343)
Due from Surplus Money Investment Fund	--	55,080	--	2,456,297	--	2,511,377
Due from other funds	87,063	693,677	482,789	58,996	--	1,322,525
Due from the Federal Government	--	--	32,414	78,762	--	111,176
Expense advances to employees	--	--	147,526	--	--	147,526
Deferred charges	--	--	585,745	--	--	585,745
Inventories: (Note 5)	--	--	--	--	--	--
Stores	--	--	5,818,498	--	--	5,818,498
Materials	--	--	3,290,629	--	--	3,290,629
Work-in-process	--	--	3,925,749	--	--	3,925,749
Land	--	--	--	--	35,606,281	35,606,281
Improvements	--	--	253,919	--	112,496,641	112,750,560
Equipment	--	--	35,078,750	846,901	397,474	36,323,125
Accumulated depreciation	--	--	(20,693,565)	--	--	(20,693,565)
Advances to Architecture Revolving Fund	--	--	779,254	682,688	89,030,152	90,492,094
Construction work in progress (Note 7)	--	--	181,639,945	--	--	181,639,945
Total Assets	\$ 603,815	\$6,946,333	\$428,961,792	\$149,818,743	\$237,530,548	\$823,861,231
LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 74,439	\$1,138,088	\$ 12,010,613	\$ 3,166,041	\$ --	\$ 16,389,181
Installment purchase contract (Note 8)	--	--	198,928	--	--	198,928
Due to employee unions	--	--	--	5,986	--	5,986
Due to other funds	578,564	176,128	9,566,677	139,735	--	10,461,104
Prepayments from other funds (Note 9)	--	--	16,880,985	--	--	16,880,985
Liability for insurance claims (Note 10)	--	2,228,515	--	--	--	2,228,515
Revenue collected in advance	--	942,151	--	--	--	942,151
Operating income collected in advance	--	--	584,580	--	--	584,580
Accountability for project deposits (Note 11)	--	--	349,421,014	--	--	349,421,014
Liability for vacation leave	--	--	615,661	--	--	615,661
Other liabilities	228,812	8,736	230,544	--	--	468,092
Total Liabilities	881,815	4,493,618	389,509,002	3,311,762	--	398,196,197
Encumbrances Outstanding	49,619	1,550	--	--	--	51,169
Fund Equity:						
Investment in general fixed assets	--	--	--	--	148,500,396	148,500,396
Reserved for construction	--	--	--	682,688	89,030,152	89,712,840
Retained earnings:						
Reserved for capital improvements and equipment replacement (Note 12)	--	--	779,254	--	--	779,254
Unreserved	--	--	38,673,536	--	--	38,673,536
Fund balances:						
Designated for participants	--	--	--	145,459,510	--	145,459,510
Designated for special purposes	--	1,499,570	--	--	--	1,499,570
Designated for insurance claims	--	1,029,260	--	--	--	1,029,260
Undesignated	--	--	--	1,028,120	--	1,028,120
Operating clearing (Note 13)	(327,619)	(77,665)	--	(663,337)	--	(1,068,621)
Total Fund Equity	(327,619)	2,451,165	39,452,790	146,506,981	237,530,548	425,613,865
Total Liabilities, Encumbrances Outstanding, and Fund Equity	\$ 603,815	\$6,946,333	\$428,961,792	\$149,818,743	\$237,530,548	\$823,861,231

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF GENERAL SERVICES
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND EQUITY
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	Governmental Fund Types		Fiduciary Fund Type	Totals
	General	Special Revenue	Expendable Trust	(Memorandum Only)
Revenues:				
Fees, premiums, and surcharges	\$ --	\$3,441,738	\$ --	\$ 3,441,738
Rental of state property	423,711	1,116,979	--	1,540,690
Income from Surplus Money				
Investment Fund	--	132,284	45,715	177,999
Lease of portable classrooms	--	--	112,816	112,816
Intergovernmental revenues	1,133,503	--	--	1,133,503
Miscellaneous revenues	--	5,000	414,923	419,923
Total Revenues	<u>1,557,214</u>	<u>4,696,001</u>	<u>573,454</u>	<u>6,826,669</u>
Other Financing Sources:				
Appropriations (Note 14)	67,389,647	1,284,165	34,961,527	103,635,339
Sale of fixed assets	3,322,259	--	--	3,322,259
Operating transfers in	1,719,151	--	1,360,489	3,079,640
Employee contributions	--	--	32,886,150	32,886,150
Earnings on investments	--	--	11,587,280	11,587,280
Refunds from school districts	--	--	14,702,366	14,702,366
Miscellaneous	350,570	(46,235)	(16,382)	287,953
Total Other Financing Sources	<u>72,781,627</u>	<u>1,237,930</u>	<u>95,481,430</u>	<u>169,500,987</u>
Total Revenues and Other Financing Sources	<u>74,338,841</u>	<u>5,933,931</u>	<u>96,054,884</u>	<u>176,327,656</u>
Expenditures				
Current:				
Operating expenses and equipment	5,468,056	5,935,513	1,031,989	12,435,558
Adjustments from liquidation of accruals (Note 15)	113,141	(17,222)	(10,702)	85,217
Capital outlay	61,903,623	--	99,850	62,003,473
Total Expenditures	<u>67,484,820</u>	<u>5,918,291</u>	<u>1,121,137</u>	<u>74,524,248</u>
Other Uses:				
Intrafund transfers (Note 16)	3,609,400	--	118,394	3,727,794
Distribution to participants	--	--	5,554,931	5,554,931
Loans to school districts	--	--	49,703,998	49,703,998
Other	--	--	35,467	35,467
Total Other Uses	<u>3,609,400</u>	<u>--</u>	<u>55,412,790</u>	<u>59,022,190</u>
Total Expenditures and Other Uses	<u>71,094,220</u>	<u>5,918,291</u>	<u>56,533,927</u>	<u>133,546,438</u>
Excess of Revenues and Other Sources over Expenditures and Other Uses	3,244,621	15,640	39,520,957	42,781,218
Fund Equity - July 1	<u>(3,572,240)</u>	<u>2,435,525</u>	<u>106,986,024</u>	<u>105,849,309</u>
Fund Equity - June 30	<u>\$ (327,619)</u>	<u>\$2,451,165</u>	<u>\$146,506,981</u>	<u>\$148,630,527</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF GENERAL SERVICES
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS
 ALL INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Operating Revenues:	
Charges for services	\$132,848,685
Printing charges	30,251,547
Sale of materials and supplies	14,916,497
Miscellaneous income	<u>829,251</u>
Total Operating Revenues	<u>178,845,980</u>
Operating Expenses:	
Personal services	82,640,272
Cost of materials and supplies sold and used	23,969,752
Other operating expenses and equipment	70,055,450
Reimbursements	(14,687,645)
Depreciation (Note 6)	3,538,434
Miscellaneous expenses	<u>2,453,035</u>
Total Operating Expenses	<u>167,969,298</u>
Operating Income	10,876,682
Operating Transfers Out (Note 17)	<u>(1,928,250)</u>
Net Income	<u>8,948,432</u>
Retained Earnings - July 1, as previously reported	29,376,029
Restatement:	
Correction of prior period errors	<u>448,775</u>
Retained Earnings - July 1, as restated	<u>29,824,804</u>
Retained Earnings - June 30	<u>\$ 38,773,236</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF GENERAL SERVICES
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Sources of Working Capital:

Operations:

Net Income	\$ 8,948,432
Items not requiring (providing) working capital:	
Depreciation	3,538,434
Retirement of equipment	2,151,721
Advances from other funds	131,385,594
Other sources	<u>417,669</u>

Total Sources of Working Capital	<u>146,441,850</u>
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Uses of Working Capital:

Acquisition of equipment	3,353,092
Reduction of working capital advance	4,309,313
Close of completed projects	47,695,028
Funds returned to state agencies	4,118,598
Net increase in construction work in progress	26,021,192
Net increase in other fixed assets	1,170
Other uses	124,074
Return of federal grants	<u>2,989,553</u>

Total Uses of Working Capital	<u>88,612,020</u>
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Net Increase in Working Capital	<u>\$ 57,829,830</u>
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Elements of Net Increase (Decrease) in Working Capital:

Cash	\$ 61,473,445
Receivables	(2,848,501)
Due from other funds	(866,148)
Due from the Federal Government	32,414
Expense advance to employees	46,284
Deferred assets	7,261
Inventories	1,057,743
Other assets	4,201
Accounts payable	(646,963)
Installment purchase contract	(198,928)
Other reserves	448,775
Due to other funds	1,022,273
Prepayments from other funds	(1,626,829)
Income collected in advance	199,318
Other liabilities	<u>(274,515)</u>

Net Increase in Working Capital	<u>\$ 57,829,830</u>
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The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF GENERAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position, the results of operations, and changes in financial position of the Department of General Services. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The accompanying financial statements are structured into Governmental Fund Types, Proprietary Fund Types, Fiduciary Fund Types, and an Account Group. The Department of General Services accounts for only its portion of the fund type categories. The State Controller maintains the central accounts for all state funds and annually publishes consolidated fund statements.

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except those accounted for in Proprietary Funds and Fiduciary Funds--are accounted for through governmental funds. The General Fund and the Special Revenue Funds are the Governmental Fund Types in the Department of General Services.

General Fund

This fund includes all financial resources not accounted for in another fund.

Special Revenue Funds

These funds are used to account for specific revenues and operating expenditures earmarked for particular activities. These are included in the Special Revenue Funds:

Motor Vehicle Parking Facilities Money - This fund is used to account for the collection of parking fees and expenditures for the development and management of state-owned parking facilities.

State Emergency Telephone Number Account - This account is a depository for the emergency telephone users' tax, a surcharge at the rate of one-half of one percent on intrastate telephone communication services. The department accounts for payments to service suppliers or communications equipment companies for administrative costs and for installation and ongoing communications services supplied to local agencies.

Property Acquisition Law Money - This fund is used to account for the costs of maintaining and improving real property acquired under the Property Acquisition Act.

State Motor Vehicle Insurance Account - This fund accounts for payments from each state agency through which agencies' motor vehicles are insured against liability for damages resulting from their operation or ownership. The fund is also used to collect amounts for the payment, investigation, and administration of liability claims. This fund was established January 1, 1979. The department used the Special Deposit Fund from July 1 to December 31, 1978 to account for the activities of the motor vehicle liability insurance program.

Handicapped Compliance Review Special Account - This fund is used to account for filing fees which pay for reviews of building plans and specifications to determine compliance with standards on accessibility and usability by the physically handicapped.

Natural Disaster Assistance Fund (Public Facilities Account) - This fund is used to account for the repair or replacement of public facilities damaged or destroyed by natural disasters. The department also uses this fund to account for the costs of investigations, estimates, and reports required for the allocation of financial aid to the facilities.

Architecture Public Building Fund (School Building Program) - This fund is used to account for fees which finance safety reviews of public school buildings to ensure compliance with structural safety standards. These reviews include an approval of building plans as well as supervision of the construction.

The Governmental Fund Types are maintained on the modified accrual basis of accounting. These are some of their significant elements:

Income

Income from revenues and reimbursements is recognized in the accounting period in which it is measurable and available to finance appropriation expenditures of the period.

Expenditures

Expenditures are recognized, if measurable, in the accounting period in which the liability is incurred. Expenditures also include encumbrances for goods or services not received at the end of the year.

PROPRIETARY FUND TYPES

Proprietary Fund Types are used to account for the measurements of net income and capital maintenance within a government's organizations and activities. These fund types resemble those found in the private sector. The department uses the Internal Service Funds to account for internal service activities rendered to other state agencies. These activities include communications; printing, architectural and engineering services; automotive management; real estate; building operations; and centralized purchasing for stores.

Architecture Revolving Fund - This fund is a depository for monies appropriated for new construction, major construction and equipment, minor construction, maintenance, and other building and improvement projects. This fund also accounts for charges for architectural and engineering services.

Service Revolving Fund - Printing - This fund is used to account for charges for work done by the Office of State Printing.

Service Revolving Fund - Other - This fund is used to account for the purchase and sale of materials, supplies, and equipment as well as for other services not provided by the Office of State Printing.

The Proprietary Fund Types are maintained on an accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and measured; expenses are recognized in the period incurred, if measurable.

FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by a governmental unit as a trustee or as an agent for individuals, private organizations, other governmental units, or other funds. The Fiduciary Fund Types are described below and are shown individually in the combining statements within the supplemental information section of this report.

Expendable Trust Funds

Expendable Trust Funds are those whose principal and income may be expended in the course of their designated operations. The department accounts for the following Expendable Trust Funds:

State School Building Aid Fund - This fund is used to account for money deposited for financial assistance to school districts in acquiring and constructing classroom facilities for pupils in the public school system. These funds primarily originate from the sale of general obligation bonds. Receipts from the repayments of loans to school districts and interest income are transferred to the General Fund to pay the general bond obligations.

School Building Safety Fund - This fund accounts for allocations to school districts for the replacement and repair of local school district buildings in compliance with building safety standards.

Special Deposit Fund - The department maintains its portion of the Special Deposit Fund to account for grants received from the Federal Government. Grants for the Office of Child Development and for Minority Business Enterprises are accounted for in the Special Deposit Fund.

Capital Outlay Projects - The department accounts for capital improvement projects appropriated from the Consumer Affairs Fund, the Fish and Game Fund, the Collier Park Preservation Fund, and the Public Employees' Retirement System.

Deferred Compensation Plan Fund - This fund is used to account for a deferred compensation program for employees of the State. The agreements provide for periodic payroll deductions from participating employees. The deferred portion of an employee's compensation is invested in one of five approved plans, at the employee's election, and remains the property of the State until the employee terminates employment. The State is liable to the employee for only the fair market value of the investment.

The Expendable Trust Funds are accounted for in the same manner as governmental funds.

Agency Funds

Agency Funds are used to account for resources received and held as an agent for others. The department uses the Vacation Trust Account to account for money withheld from the wages of temporary maintenance workers to be paid to union vacation trust accounts. The Agency Funds' assets and liabilities are accounted for on the modified accrual basis.

GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group is used to account for land, improvements, and equipment other than that of proprietary funds. Assets purchased or constructed are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance. Assets are valued at cost or at fair market value, if cost cannot be determined.

2. INVESTMENTS

Monies held by the State under the Deferred Compensation Plan are invested in five approved plans at the employee's election. The investments are valued at fair market value. Investments are distributed among the following approved plans:

<u>Approved Plans</u>	<u>Fair Market Value</u>
Great Western Savings and Loan Association	\$120,980,242
T. Rowe Price Growth Stock Fund, Inc.	17,582,968
Nationwide Life Insurance Company	1,187,365
Rowe Price New Income Fund, Inc.	3,297,082
California-Western States Life Insurance Company	<u>2,414,769</u>
Total Investments	<u>\$145,462,426</u>
 Approximate Cost of Investments	 <u>\$127,977,110</u>

3. DEPOSITS IN SURPLUS MONEY INVESTMENT FUND

This account represents the amount of the department's money in the Surplus Money Investment Fund which accounts for monies that have been transferred for investment purposes. All earnings derived from investments of this fund are apportioned to the contributing funds. At June 30, 1979 interest due from the Surplus Money Investment Fund amounted to \$2,511,377.

4. ALLOWANCE FOR DEFERRED AND UNCOLLECTIBLE RECEIVABLES

This account reflects the amount of receivables that are not expected to be collected within the next fiscal year. The balance in the Special Revenue Fund of \$275,933 includes receivables of \$179,350 outstanding over 180 days. It is uncertain whether these receivables will be collected.

5. INVENTORIES

This account is used to record stores inventory for goods and materials purchased for resale and materials and work-in-process inventories in the printing operations. Stores and materials inventories are valued at cost using the moving average cost method. Work-in-process includes the cost of materials used and charges from cost centers for jobs in process at June 30, 1979.

6. DEPRECIATION

The department depreciates the cost of Internal Service Funds' equipment on a straight-line basis using a composite rate.

7. CONSTRUCTION WORK IN PROGRESS

This account shows the amount expended for capital outlay projects which were not completed at the end of the fiscal year.

8. INSTALLMENT PURCHASE CONTRACT

A portion of the balance of equipment was acquired under an installment purchase contract. The unpaid balance at June 30, 1979 of \$198,928 is payable within the next four fiscal years together with interest of 5.25 percent on the unpaid balance.

9. PREPAYMENTS FROM OTHER FUNDS

This account shows the amount of unexpended advances from other appropriations or funds as advance payment for services requested.

10. LIABILITY FOR INSURANCE CLAIMS

This account represents the estimated amount of insurance claims pending for bodily injury and property damage under the department's self-insurance program. This program covers the liabilities incurred from the ownership or the operation of state-owned automobiles.

11. ACCOUNTABILITY FOR PROJECT DEPOSITS

This account shows the amount of accountability of the Architecture Revolving Fund to other state agencies for advances for specific capital outlay projects.

12. RETAINED EARNINGS RESERVE FOR CAPITAL
IMPROVEMENTS AND REPLACEMENT OF EQUIPMENT

This account shows the amount of advances to the Architecture Revolving Fund for capital improvements and for the replacement of equipment. Current projects supply engineering services to alter and correct facilities for the computer systems.

13. OPERATING CLEARING

Operating clearing is the connecting link between the records of the department and the central fund accounts of the State Controller for funds not accounted for entirely by one agency. The balance at June 30, 1979 represents the net assets and liabilities for which the department is accountable.

14. APPROPRIATIONS

Funds provided from appropriations consist of cash disbursed by the State Controller from the department's appropriations for the year ended June 30, 1979 and liquidation of expenditures accrued against appropriations for prior periods.

15. ADJUSTMENTS FROM LIQUIDATION OF ACCRUALS

This account includes the difference between expenditures, abatements, and reimbursements accrued as of June 30, 1978 and the actual amounts received, incurred, or accrued during the year but related to a prior fiscal year.

16. INTRAFUND TRANSFERS

Intrafund transfers represent revenues, reimbursements, and refunds to reverted appropriations for which the department has transferred accountability to the State Controller.

17. OPERATING TRANSFERS OUT

The balance of rental receipts paid into the Service Revolving Fund - Other after rental expenses and the costs of maintaining, operating, and insuring building space have been paid is transferred as General Fund revenue. The amount to be transferred at June 30, 1979 is reported in Due to the General Fund.

18. PENSION PLAN

Regular employees of the department are members of the Public Employees' Retirement system (PERS) which is a defined benefit, contributory retirement plan. The amount the department and its employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The department's share of retirement contributions for the year totaled \$10,051,360 and includes amortization of prior service cost over a period not to exceed 30 years. The actuarially computed value of employee vested benefits is not available.

19. COMPENSATED PERSONAL ABSENCE

Compensation for vacation, illness, and holidays is charged at the time these benefits are used rather than when they are earned.

SUPPLEMENTAL INFORMATION

This section presents combining balance sheets; statements of revenues, expenditures/expenses, and changes in fund equity; statement of changes in financial position; statement of changes in assets and liabilities; and a comparison of the legally adopted budget by fund with actual data on the budgetary basis.

The State's annual budget represents departmental appropriations as authorized by the Budget Act of 1978, continuing appropriations, and authorized revisions that reflect changes in programs and activities during the year. The State's annual budget includes the department's General Fund, the State Emergency Telephone Number Account, and the Architecture Public Building Fund. Accordingly, the budgetary comparison reflects only budgeted accounts of those funds.

While not necessary for a fair presentation of the general purpose financial statements, the supplemental information is included to provide additional analytical data.

DEPARTMENT OF GENERAL SERVICES
COMBINING BALANCE SHEET
ALL SPECIAL REVENUE FUNDS

JUNE 30, 1979

ASSETS	Motor Vehicle Parking Facilities Money	State Emergency Telephone Number Account	Property Acquisition Law Money Account	State Motor Vehicle Insurance Account	Handicapped Compliance Review Special Account	Architecture Public Building	Natural Disaster Assistance	Totals (Memorandum Only)
Cash	\$947,104	\$	\$ 784,526	\$3,168,281	\$159,334	\$ 100,302	\$	\$5,159,547
Deposits in Surplus Money Investment Fund	--	--	--	--	--	932,000	--	932,000
Receivables	54,950	--	282,826	29,227	--	14,959	--	381,962
Allowance for deferred and uncollectible receivables	(38,626)	--	(237,307)	--	--	--	--	(275,933)
Due from Surplus Money Investment Fund	--	--	--	552,302	--	55,080	--	55,080
Due from other funds	--	--	--	--	--	141,375	--	693,677
Total Assets	\$963,428	\$	\$ 830,045	\$3,749,810	\$159,334	\$1,243,716	\$	\$6,946,333
LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY								
Liabilities:								
Accounts payable	252,434	14,865	469,156	316,801	22,926	--	61,906	1,138,088
Due to other funds	--	894	--	175,234	--	--	--	176,128
Liability for insurance claims	--	--	--	2,228,515	--	--	--	2,228,515
Revenues collected in advance	--	--	--	--	--	942,151	--	942,151
Other liabilities	3	--	--	--	2,257	6,476	--	8,736
Total Liabilities	252,437	15,759	469,156	2,720,550	25,183	948,627	61,906	4,493,618
Encumbrances Outstanding	--	--	--	--	1,550	--	--	1,550
Fund Equity:								
Fund balances:								
Designated for special purposes	710,991	--	360,889	--	132,601	295,089	--	1,499,570
Designated for insurance claims	--	--	--	1,029,260	--	--	(61,906)	1,029,260
Operating clearing	--	(15,759)	--	--	--	--	--	(77,665)
Total Fund Equity	710,991	(15,759)	360,889	1,029,260	132,601	295,089	(61,906)	2,451,165
Total Liabilities, Encumbrances Outstanding, and Fund Equity	\$963,428	\$	\$ 830,045	\$3,749,810	\$159,334	\$1,243,716	\$	\$6,946,333

EXHIBIT 1

DEPARTMENT OF GENERAL SERVICES

COMBINING BALANCE SHEET
ALL INTERNAL SERVICE FUNDS

JUNE 30, 1979

ASSETS	Architecture Revolving Fund	Service Revolving Fund		Totals (Memorandum Only)
		Other	Printing	
Cash	\$174,745,775	\$ 12,779,754	\$ 4,369,314	\$191,894,843
Receivables	26,773	20,146,496	5,578,164	25,751,433
Allowance for deferred and uncollectible receivables	--	(26,137)	--	(26,137)
Due from other funds	376,125	80,464	26,200	482,789
Due from the Federal Government	--	32,414	--	32,414
Expense advances to employees	21,660	112,728	13,138	147,526
Deferred charges	172	178,380	407,193	585,745
Inventories:				
Stores	--	5,818,498	--	5,818,498
Materials	--	--	3,290,629	3,290,629
Work-in-process	--	--	3,925,749	3,925,749
Improvements	--	--	253,919	253,919
Equipment	332,544	25,530,230	9,215,976	35,078,750
Accumulated depreciation	(229,651)	(13,661,958)	(6,801,956)	(20,693,565)
Advances to Architecture Revolving Fund	--	679,554	99,700	779,254
Construction work in progress	181,639,945	--	--	181,639,945
Total Assets	<u>\$356,913,343</u>	<u>\$ 51,670,423</u>	<u>\$20,378,026</u>	<u>\$428,961,792</u>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 5,319,955	\$ 4,837,740	\$ 1,852,918	\$ 12,010,613
Installment purchases contract	--	198,928	--	198,928
Due to other funds	--	6,546,427	3,020,250	9,566,677
Prepayments from other funds	--	12,446,623	4,434,362	16,880,985
Operating income collected in advance	--	496,507	88,073	584,580
Accountability for project deposits	349,421,014	--	--	349,421,014
Liability for vacation leave	--	--	615,661	615,661
Other liabilities	213,120	69	17,355	230,544
Total Liabilities	<u>354,954,089</u>	<u>24,526,294</u>	<u>10,028,619</u>	<u>389,509,002</u>
Fund Equity:				
Retained earnings:				
Reserved for capital improvements and equipment replacement	--	679,554	99,700	779,254
Unreserved	1,959,254	26,464,575	10,249,707	38,673,536
Total Fund Equity	<u>1,959,254</u>	<u>27,144,129</u>	<u>10,349,407</u>	<u>39,452,790</u>
Total Liabilities and Fund Equity	<u>\$356,913,343</u>	<u>\$ 51,670,423</u>	<u>\$20,378,026</u>	<u>\$428,961,792</u>

DEPARTMENT OF GENERAL SERVICES
COMBINING BALANCE SHEET
ALL TRUST AND AGENCY FUNDS
JUNE 30, 1979

ASSETS	EXPENDABLE TRUSTS								Agency	Totals (Memorandum Only)	
	Special Deposit				Capital Outlay		Public Employees Retirement System	Deferred Compensation Plan			Vacation Trust
	State School Building Aid	School Building Safety	Office of Child Development	Minority Business Enterprises	Consumer Affairs	Fish and Game					
Cash	\$ --	\$ --	\$25,274	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 334	\$2,918	\$ 28,526
Investments	--	--	--	--	--	--	--	--	145,462,426	--	145,462,426
Deposits in Surplus Money	--	--	--	--	--	--	--	--	129,000	--	129,000
Investment Fund	328,797	--	--	--	--	--	--	--	796	--	329,593
Receivables	--	--	--	--	--	--	--	--	--	--	--
Allowance for deferred and uncollectible receivables	(254,446)	--	--	--	--	--	--	--	--	--	(254,446)
Due from Surplus Money	--	--	--	--	--	--	--	--	2,456,297	--	2,456,297
Investment Fund	--	--	--	--	--	--	--	--	--	--	--
Due from other funds	55,928	--	--	--	--	--	--	--	3,068	--	58,996
Due from the Federal Government	--	--	--	78,762	--	--	--	--	--	--	78,762
Equipment	846,901	--	--	--	--	--	--	--	--	--	846,901
Advances to Architecture	--	--	--	--	--	--	--	--	--	--	--
Revolving Fund	--	--	--	--	317,100	10,835	--	354,753	--	--	682,688
Total Assets	\$ 977,180	\$ --	\$25,274	\$78,762	\$317,100	\$ 10,835	\$ --	\$354,753	\$148,048,853	\$5,986	\$149,818,743
LIABILITIES AND FUND EQUITY											
Liabilities:											
Accounts payable	\$ 733,451	\$ --	\$ 4,010	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 2,428,580	\$ --	\$ 3,166,041
Due to employee unions	--	--	--	--	--	60,165	--	--	808	5,986	5,986
Due to other funds	--	--	--	78,762	--	--	--	--	--	--	139,735
Total Liabilities	733,451	--	4,010	78,762	--	60,165	--	--	2,429,388	5,986	3,311,762
Fund Equity:											
Reserved for construction	--	--	--	--	317,100	10,835	--	354,753	--	--	682,688
Fund Balances:											
Designated for participants	--	--	--	--	--	--	--	--	145,459,510	--	145,459,510
Undesignated	846,901	--	21,264	--	--	--	--	--	159,955	--	1,028,120
Operating clearing	(603,172)	--	--	--	--	(60,165)	--	--	--	--	(663,337)
Total Fund Equity	243,729	--	21,264	--	317,100	(49,330)	--	354,753	145,619,465	--	146,506,981
Total Liabilities and Fund Equity	\$ 977,180	\$ --	\$25,274	\$78,762	\$317,100	\$ 10,835	\$ --	\$354,753	\$148,048,853	\$5,986	\$149,818,743

DEPARTMENT OF GENERAL SERVICES
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY
ALL SPECIAL REVENUE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	Motor Vehicle Parking Facilities Money	State Emergency Telephone Number Account	Property Acquisition Law Money Account	State Motor Vehicle Insurance Account	Handicapped Compliance Review Special Account	Architecture Public Building	Natural Disaster Assistance	Totals (Memorandum Only)
Revenues:								
Fees, premiums, and surcharges	\$818,589	\$ --	\$ --	\$1,250,096	\$124,192	\$1,248,861	\$ --	\$3,441,738
Rental of state property	--	--	1,116,979	--	--	--	--	1,116,979
Income from Surplus Money	--	--	--	--	--	132,284	--	132,284
Investment Fund	--	--	5,000	--	--	--	--	5,000
Miscellaneous revenues	--	--	--	--	--	--	--	--
Total Revenues	818,589	--	1,121,979	1,250,096	124,192	1,381,145	--	4,696,001
Other Financing Sources:								
Appropriations	--	1,206,556	--	--	--	--	77,609	1,284,165
Miscellaneous	--	--	(41,074)	--	--	(4,829)	(332)	(46,235)
Total Other Financing Sources	--	1,206,556	(41,074)	--	--	(4,829)	77,277	1,237,930
Total Revenues and Other Financing Sources	818,589	1,206,556	1,080,905	1,250,096	124,192	1,376,316	77,277	5,933,931
Expenditures								
Current:								
Operating expenses and equipment	693,614	1,131,314	1,172,576	851,373	130,825	1,856,795	99,016	5,935,513
Adjustments from liquidation	214	--	--	--	--	(17,436)	--	(17,222)
Total Expenditures	693,828	1,131,314	1,172,576	851,373	130,825	1,839,359	99,016	5,918,291
Excess of Revenues and Other Sources over (under) Expenditures	124,761	75,242	(91,671)	398,723	(6,633)	(463,043)	(21,739)	15,640
Fund Equity - July 1	586,230	(91,001)	452,560	630,537	139,234	758,132	(40,167)	2,435,525
Fund Equity - June 30	\$710,991	\$ (15,759)	\$ 360,889	\$1,029,260	\$132,601	\$ 295,089	\$ (61,906)	\$2,451,165

DEPARTMENT OF GENERAL SERVICES
 COMBINING STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS
 ALL INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	Architecture Revolving Fund	Service Revolving Fund		Totals (Memorandum Only)
		Other	Printing	
Operating Revenues:				
Charges for services	\$7,139,379	\$125,709,306	\$ --	\$132,848,685
Printing charges	--	--	30,251,547	30,251,547
Sale of materials and supplies	--	14,916,497	--	14,916,497
Miscellaneous income	312,350	(23,445)	540,346	829,251
Total Operating Revenues	<u>7,451,729</u>	<u>140,602,358</u>	<u>30,791,893</u>	<u>178,845,980</u>
Operating Expenses:				
Personal services	5,480,355	63,565,637	13,594,280	82,640,272
Cost of materials and supplies sold and used	--	15,527,317	8,442,435	23,969,752
Other operating expenses and equipment	1,083,688	63,415,294	5,556,468	70,055,450
Reimbursements	--	(14,687,645)	--	(14,687,645)
Depreciation	18,773	2,823,445	696,216	3,538,434
Miscellaneous expenses	39,502	2,405,413	8,120	2,453,035
Total Operating Expenses	<u>6,622,318</u>	<u>133,049,461</u>	<u>28,297,519</u>	<u>167,969,298</u>
Operating Income	829,411	7,552,897	2,494,374	10,876,682
Operating Transfers Out	--	(1,928,250)	--	(1,928,250)
Net Income	<u>829,411</u>	<u>5,624,647</u>	<u>2,494,374</u>	<u>8,948,432</u>
Retained Earnings - July 1, as previously reported	681,068	20,839,928	7,855,033	29,376,029
Restatement:				
Correction of prior period errors	448,775	--	--	448,775
Retained Earnings - July 1, as restated	<u>1,129,843</u>	<u>20,839,928</u>	<u>7,855,033</u>	<u>29,824,804</u>
Retained Earnings - June 30	<u>\$1,959,254</u>	<u>\$ 26,464,575</u>	<u>\$10,349,407</u>	<u>\$ 38,773,236</u>

DEPARTMENT OF GENERAL SERVICES
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY
ALL EXPENDABLE TRUST FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	Special Deposit			Capital Outlay				Totals (Memorandum Only)	
	State School Building Aid	School Building Safety	Office of Child Development	Minority Business Enterprises	Consumer Affairs	Fish and Game	Collier Park Preservation	Public Employees Retirement System	Deferred Compensation Plan
Revenues:									
Income from Surplus Money			\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 45,715
Investment Fund	\$ --	\$ --	--	--	--	--	--	--	112,816
Lease of portable classrooms	112,816	--	11,469	98,992	--	--	--	--	414,923
Miscellaneous revenues	201,674	--	--	--	--	--	--	--	--
Total Revenues	314,490	--	11,469	98,992	--	--	--	--	573,454
Other Financing Sources:									
Appropriations	34,943,939	--	--	--	--	7,585	10,003	--	--
Operating transfers in	846,901	--	--	--	317,100	10,835	--	185,653	--
Employee contributions	--	--	--	--	--	--	--	--	32,886,150
Earnings on investments	--	--	--	--	--	--	--	--	11,587,280
Refunds from school districts	14,702,366	--	--	--	--	--	--	--	14,702,366
Miscellaneous	(16,382)	--	--	--	--	--	--	--	(16,382)
Total Other Financing Sources	50,476,824	--	--	--	317,100	18,420	10,003	185,653	44,473,430
Total Revenues and Other Financing Sources	50,791,314	--	11,469	98,992	317,100	18,420	10,003	185,653	44,621,933
Expenditures									
Current:									
Operating expenses and equipment	784,639	--	17,987	98,992	--	--	10,003	--	120,368
Adjustments from liquidation	(5,578)	--	--	--	--	--	--	--	(5,124)
Capital outlay	--	--	--	--	32,100	67,750	--	--	--
Total Expenditures	779,061	--	17,987	98,992	32,100	67,750	10,003	--	115,244
Other Uses:									
Intrafund transfers	118,394	--	--	--	--	--	--	--	--
Distribution to participants	--	--	--	--	--	--	--	--	5,554,931
Loans to school districts	49,041,940	662,058	--	--	--	--	--	--	49,703,998
Other	--	--	--	--	--	--	--	--	35,467
Total Other Uses	49,160,334	662,058	--	--	--	--	--	--	55,412,790
Total Expenditures and Other Uses	49,939,395	662,058	17,987	98,992	32,100	67,750	10,003	--	5,705,642
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	851,919	(662,058)	(6,518)	--	285,000	(49,330)	--	185,653	39,916,291
Fund Equity - July 1	(608,190)	662,058	27,782	--	32,100	--	--	169,100	106,703,174
Fund Equity - June 30	\$ 243,729	\$ --	\$ 21,264	\$ --	\$ 317,100	\$ (49,330)	\$ --	\$ 354,753	\$ 145,619,465

DEPARTMENT OF GENERAL SERVICES
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	Architecture Revolving Fund	Service Revolving Fund		Totals (Memorandum Only)
		Other	Printing	
Sources of Working Capital:				
Operations:				
Net income	\$ 829,411	\$ 5,624,647	\$ 2,494,374	\$ 8,948,432
Items not requiring (providing) working capital:				
Depreciation	18,773	2,823,445	696,216	3,538,434
Retirement of equipment	--	2,151,721	--	2,151,721
Advances from other funds	131,385,594	--	--	131,385,594
Other sources	417,669	--	--	417,669
Total Sources of Working Capital	<u>132,651,447</u>	<u>10,599,813</u>	<u>3,190,590</u>	<u>146,441,850</u>
Uses of Working Capital:				
Acquisition of equipment	14,402	2,211,334	1,127,356	3,353,092
Reduction of working capital advance	--	4,309,313	--	4,309,313
Close of completed projects	47,695,028	--	--	47,695,028
Funds returned to state agencies	4,118,598	--	--	4,118,598
Net increase in construction work in progress	26,021,192	--	--	26,021,192
Net increase in other fixed assets	--	--	1,170	1,170
Other uses	--	124,074	--	124,074
Return of federal grants	2,989,553	--	--	2,989,553
Total Uses of Working Capital	<u>80,838,773</u>	<u>6,644,721</u>	<u>1,128,526</u>	<u>88,612,020</u>
Net Increase in Working Capital	<u>\$ 51,812,674</u>	<u>\$ 3,955,092</u>	<u>\$ 2,062,064</u>	<u>\$ 57,829,830</u>
Elements of Net Increase (Decrease) in Working Capital:				
Cash	\$ 58,136,789	\$ 4,948,804	\$(1,612,148)	\$ 61,473,445
Receivables	(4,063,165)	479,837	734,827	(2,848,501)
Due from other funds	--	(892,348)	26,200	(866,148)
Due from the Federal Government	--	32,414	--	32,414
Expense advances to employees	15,238	33,075	(2,029)	46,284
Deferred assets	169	73,801	(66,709)	7,261
Inventories	--	780,429	277,314	1,057,743
Other assets	--	4,201	--	4,201
Accounts payable	(2,608,944)	1,646,039	315,942	(646,963)
Installment purchase contract	--	(198,928)	--	(198,928)
Other reserves	448,775	--	--	448,775
Due to other funds	--	1,315,421	(293,148)	1,022,273
Prepayments from other funds	--	(4,144,741)	2,517,912	(1,626,829)
Income collected in advance	--	33,890	165,428	199,318
Other liabilities	(116,188)	(156,802)	(1,525)	(274,515)
Net Increase in Working Capital	<u>\$ 51,812,674</u>	<u>\$ 3,955,092</u>	<u>\$ 2,062,064</u>	<u>\$ 57,829,830</u>

DEPARTMENT OF GENERAL SERVICES
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>Balance July 1, 1978</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 1979</u>
<u>VACATION TRUST FUND</u>				
ASSETS				
Cash	\$1,897	\$21,413	\$20,392	\$2,918
Due from other funds	<u>--</u>	<u>3,068</u>	<u>--</u>	<u>3,068</u>
Total Assets	<u>\$1,897</u>	<u>\$24,481</u>	<u>\$20,392</u>	<u>\$5,986</u>
LIABILITIES				
Due to employee unions	<u>\$1,897</u>	<u>\$32,643</u>	<u>\$28,554</u>	<u>\$5,986</u>

DEPARTMENT OF GENERAL SERVICES
COMPARISON OF LEGALLY ADOPTED BUDGET
WITH ACTUAL DATA ON THE BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	Budget as Adjusted	Actual	Variance Favorable (Unfavorable)
For support of Department of General Services for transfer to the Service Revolving Fund by State Controller in such amounts as the Department of Finance may authorize	\$ 5,599,971	\$ 5,333,056	\$ 266,915
For expenses--Master plans for the development of future state buildings in the capital area	<u>145,000</u>	<u>135,000</u>	<u>10,000</u>
Total Support Expenditures	<u>5,744,971</u>	<u>5,468,056</u>	<u>276,915</u>
For Capital Outlay--Department of General Services			
Project planning, land acquisition, and construction of state buildings	45,705,804	30,479,347	15,226,457
Project planning, systems modification, and Capital Area Plan development	3,029,384	2,079,811	949,573
Construction of state buildings for expenditures in fiscal years 1979-80 and 1980-81	142,620,843	--	142,620,843
Preliminary plan, drawings, and capital outlay of Central Plant gasifier	250,000	69,500	180,500
Project planning to be allocated by the Department of Finance	16,600	14,800	1,800
Acquisition of property-office building-Van Nuys	436,278	36,278	400,000
Electrical work for State Capitol Restoration Project	1,100,000	1,089,300	10,700
Project planning and construction of state office buildings	28,751,506	23,848,741	4,902,765
Acquisition of property-Van Nuys Civic Center	1,191,600	38,648	1,152,952
Project planning, alterations, and construction to state buildings	4,440,857	4,247,198	193,659
Demolition of existing state office buildings and preliminary plans and drawings for new buildings in Los Angeles	<u>1,029,880</u>	<u>--</u>	<u>1,029,880</u>
Total Capital Outlay	<u>228,572,752</u>	<u>61,903,623</u>	<u>166,669,129</u>
Total Expenditures on the Budgetary Basis	<u>\$234,317,723</u>	<u>\$67,371,679</u>	<u>\$166,946,044</u>

DEPARTMENT OF GENERAL SERVICES

COMPARISON OF LEGALLY ADOPTED BUDGET
WITH ACTUAL DATA ON THE BUDGETARY BASIS
SPECIAL REVENUE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	State Emergency Telephone Number Account		Architecture Public Building Fund		Variance Favorable (Unfavorable)
	Budget as Adjusted	General Fund Actual	Budget as Adjusted	Actual	
For support of Department of General Services	\$ 166,439	\$ 166,439	\$ 2,527,458	\$1,856,795	\$670,663
For reimbursement of local agencies and service suppliers or communications equipment companies for costs incurred	1,040,260	964,875	--	--	--
Total Expenditures on the Budgetary Basis	<u>\$1,206,699</u>	<u>\$1,131,314</u>	<u>\$2,527,458</u>	<u>\$1,856,795</u>	<u>\$670,663</u>

OTHER COMMENTS

As an integral part of our examination, we reviewed the Department of General Services' accounting procedures and its related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the department's financial statements present its financial position and the results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the department in conjunction with certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles.

The department generally concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps